



## National Report to the European Commission (Summary), July 2019

### **2. MAIN DEVELOPMENTS IN THE GAS AND ELECTRICITY MARKETS**

#### **2.1. Main developments in the electricity market**

The amendments to the Energy Act (EA) and to the Energy from Renewable Sources Act (ERSA) had a significant role in the market liberalization process in 2018. By them the next stage of the electricity market liberalization was put forward when all producers with total installed electrical capacity of and more than 4 MW, incl. those from renewable sources (RES) and high-efficiency cogeneration (HECG), have been obliged to sell all generated electricity to the various segments of the organized power exchange – respectively, the public provider had to sell the quantities exceeding the needs of the regulated market and the transmission and distribution system operators had to buy the required electricity amounts for technological costs from the power exchange. In this regard, the existing model of mandatory purchase of electricity generated by RES and HECG generators has been eliminated, as well as the obligation of the public provider to sell electricity to grid operators to cover the transmission / distribution technological costs. EWRC has been delegated additional powers related to the determination of electricity premiums for RES and HECG electricity generated by plants with total installed capacity of and more than 4 MW. EWRC also started to set the forecast market price by generators groups depending on the primary energy source, as well as to determine an estimated market price for technological costs of the transmission system operator and the distribution system operators.

The functions and role of the Electricity System Security Fund (ESSF) have significantly expanded. The fore-mentioned amendments to EA and ERSA in 2018 necessitated an amendment of Ordinance No. 1 of March 14, 2017 on regulation of electricity prices (OREP) and of the Electricity Trading Rules (ETR). The changes made in the OREP and the ETR aimed at aligning these secondary legislation acts with the amendments to the EA and the ERSA and creating the required regulatory prerequisites for the real participation of the concerned market participants in the power exchange.

The power exchange expansion raised the issue of the regulator's powers to monitor and control the market and impede attempts of market manipulation and abuse. This resulted in the

implementation of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency (REMIT) in the national legislation, with changes in the EA, promulgated SG 38/2018, as an important measure that allows EWRC to fulfill its functions in order to guarantee transparency and market integrity and in cases of proven manipulation, to impose effective sanctions against violators.

In the pricing decisions over the period, EWRC has consistently implemented a balanced approach that takes into account the interests of all concerned, in order to prevent sharp price changes. Regulated market electricity prices increased by an average of 2.03% in 2018 and heating prices - by an average of about 7.33%. This regulator's approach to electricity and heat prices has been of particular importance for household customers and especially for those who fall into the category of energy vulnerable customers. In order to protect them, the state needs to introduce support measures that allow the market liberalization process to pass without social disturbances.

In order to achieve cross-border connectivity, EWRC and the Energy Regulatory Authority of the Hellenic Republic (RAE) have adopted a common Cross-border Cost Allocation Decision for a project of common interest No. 3.7.1.Maritsa East 1 (BG) - N. Santa (EL), enabling ESO EAD to receive a grant of BGN 58 M under the Connecting Europe Facility. In order to bring national legislation in line with European legislation, EWRC has also adopted decisions concerning the implementation of the regulations and network codes of the Single European Electricity Market, aimed at achieving the three objectives of the European energy policy - ensuring security of supply, creating a competitive internal electricity market and reduction in carbon emissions in the electricity sector.

## **2.2. Main developments in the gas market**

In 2018, EWRC continued its activities to create the necessary conditions for competitiveness and liberalization of the Bulgarian gas market as part of the EU and Eastern European market, as well as for opening and accessing the national gas market to all participants. An important condition about the gas market liberalization in the country is the single regional natural gas market establishment, which can be achieved by building and connecting natural gas transmission infrastructures between countries, as well as by overcoming the differences in the ways of allocating gas capacities and natural gas markets balancing regimes. Essential for the regional gas market creation is the construction and putting into operation of the infrastructure projects included in the PCI list published by the European Commission (EC), to which the regulator contributed significantly. A key in this regard is the Greece-Bulgaria interconnector, which is among the seven EU energy priorities and will be implemented in synergy with the Alexandroupolis LNG terminal. EWRC and RAE adopted a Final Joint Decision on the exemption application submitted by ICGB AD, granting the company a temporary exemption for the Greece-Bulgaria interconnector from third-party access requirements, regulated tariffs and unbundling under Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (Directive 2009/73/EC).

In accordance with Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/ EC, and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009 (Regulation (EU) No 347/2013), regarding an investment request by Bulgartransgaz EAD, EWRC adopted a decision defining the cross-border allocation of investment costs of PCI No 6.8.2 “Rehabilitation, modernization and expansion of the Bulgarian transmission system” - Phase 2. EWRC approved Bulgartransgaz EAD's 10-year network development plan for the period 2018-2027, which is the basis for the development of the Regional Network Development Investment Plans (GRIPs) and the EU Community Network Development Plan prepared by the European Network of Transmission System Operators – Gas (ENTSO-G).

In 2018, EWRC approved a Second Annual Report of Bulgartransgaz EAD on the continued application of interim measures for the maximum time limit under Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission networks due to lack of diversification of supply routes and sources, limited number of users operating in the short-term gas market and lack of access to a trading platform in Bulgaria and neighboring gas markets that meets the criteria of Article 10 of that Regulation.

In view of the expected significant change in the natural gas supply routes through the territory of the country (potential reduction of the quantities transited through the country and the forthcoming construction in the region of key infrastructure projects for the development of the Southern Gas Corridor), by a Decision of the National Assembly, the Energy strategy of the Republic of Bulgaria until 2020 was amended and supplemented with the concept of building a gas distribution center (hub) on the territory of Bulgaria. The creation of the gas hub aims at linking the gas markets of the Member States in the region and the Energy Community Contracting Parties with the necessary gas infrastructure, in order to achieve the main priorities of the European energy policy. In this regard, EWRC adopted a decision approving the documentation of implementing the binding phase 3 of the Open season procedure for the project “Expansion of the gas transmission infrastructure of Bulgartransgaz EAD parallel to the north (main) gas pipeline to the Bulgarian-Serbian border”. Phase 3 of the economic test ended with a positive result and Bulgartransgaz EAD made a final investment decision for the implementation of the Project with an estimated investment value of BGN 2 767 115 441 (two billion seven hundred sixty-seven million one hundred and fifteen thousand four hundred forty one levs) excluding VAT.

The gas distribution center construction concept was developed in January 2019 by founding the Gas Hub Balkan EAD company, with subject of activity construction and operation of an electronic platform, which created conditions for concluding bilateral transactions and a power exchange with physical and non-physical products - natural gas, energy products, energy carriers, energy, green and white certificates, carbon emissions and other energy-related products. In this regard, amendments to national legislation are forthcoming.

In 2018, EWRC adopted amendments and supplements to Ordinance No. 2 of March 19, 2013 on natural gas prices regulation (ONGPR), which achieved clearer regulation and optimization of the terms and conditions under which price regulation of both the public supplier and of the natural gas sector as a whole will be implemented, while maintaining the existing provisions and basic principles of price regulating. The amendments introduced formation and validation of gas prices only in energy measure units under the current European legislation.

EWRC exercises its regulatory powers in the natural gas sector in accordance with the Energy Act and the European legislation towards opening, proper functioning, development of a competitive, secure and sustainable internal gas market as part of the EU single gas market, striving to achieve a balance between the interests of energy companies and customers. In its activities, EWRC is guided by the principle of close cooperation with the regulatory authorities of other EU Member States, with ACER and the EC in order to achieve a genuine opening of the natural gas market to all EU customers and suppliers and to ensure appropriate conditions for efficient and reliable operation of gas networks, taking into account long-term goals.